
Investor Compensation Fund (the Fund)

Report of the Investor Compensation Fund Committee (the Committee)

The members of the Committee present their annual report and the audited financial statements for the year ended 31 March 2010.

1. Establishment of the Fund

Part XII of the Securities and Futures Ordinance (Chapter 571) established the Fund on 1 April 2003.

2. Financial results

The Committee presents the financial results which are set out in the financial statements on pages 82 to 95.

3. Members of the Committee

The members of the Committee during the year ended 31 March 2010 and up to the date of this report were:

Mr Keith Lui (Chairman)

Mr Gerald Greiner (retired on 1 April 2010)

Mr Kenneth H W Kwok, BBS, SC

Mrs Alexa Lam

Mr Eric Yip (appointed on 1 April 2010)

4. Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the year.

5. Auditor

KPMG were first appointed as auditor of the Fund in 2003. KPMG retire and being eligible, offer themselves for re-appointment.

On behalf of the Committee

Keith Lui

Chairman

28 May 2010

Independent auditor's report to the Securities & Futures Commission (the SFC)

We have audited the financial statements of Investor Compensation Fund (the Fund) established under Part XII of the Securities and Futures Ordinance set out on pages 82 to 95 which comprise the statement of financial position as at 31 March 2010 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The SFC's responsibility for the financial statements

The Securities and Futures Ordinance requires the directors of the SFC to keep proper accounts of the Fund and to prepare financial statements of the Fund in respect of each financial year. The directors of the SFC do so on the basis that these financial statements should give a true and fair view and in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Fund as at 31 March 2010 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

28 May 2010

Statement of comprehensive income

For the year ended 31 March 2010

(Expressed in Hong Kong dollars)

	Note	2010 \$'000	2009 \$'000
Income			
Net investment income/(loss)	5	154,796	(32,716)
Exchange difference		1,733	(2,596)
Recoveries		1,345	–
		157,874	(35,312)
Expenses			
Investor Compensation Company expenses	7	4,165	4,235
Compensation expense	8	363	994
Auditor's remuneration		86	84
Bank charges		755	768
Professional fees		2,975	2,827
Sundry expenses		–	1
		8,344	8,909
Surplus/(deficit) and total comprehensive income for the year		149,530	(44,221)

The notes on pages 86 to 95 form part of these financial statements.

Statement of financial position

At 31 March 2010

(Expressed in Hong Kong dollars)

	Note	2010 \$'000	2009 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
– Debt securities	9	1,517,803	1,554,614
– Pooled Fund	9	184,523	113,112
Interest receivable		16,371	20,253
Due from Investor Compensation Company		261	477
Fixed and call deposits with banks	10	150,452	116,037
Cash at bank	10	102,283	20,074
		1,971,693	1,824,567
Current liabilities			
Provision for compensation	8	5,656	8,032
Creditors and accrued charges		895	801
Fair value adjustment on unsettled trades		7	129
		6,558	8,962
Net current assets		1,965,135	1,815,605
Net assets		1,965,135	1,815,605
Representing:			
Compensation fund			
Contributions from Unified Exchange Compensation Fund	11	994,718	994,718
Contributions from Commodity Exchange Compensation Fund	11	108,923	108,923
Accumulated surplus		861,494	711,964
		1,965,135	1,815,605

Approved and authorised for issue by the Securities and Futures Commission (the SFC) on 28 May 2010 and signed on its behalf by

Eddy C Fong

Chairman of the SFC

Martin Wheatley

Chief Executive Officer of the SFC

The notes on pages 86 to 95 form part of these financial statements.

Statement of changes in equity

For the year ended 31 March 2010

(Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2008	994,718	108,923	756,185	1,859,826
Total comprehensive income for the year	–	–	(44,221)	(44,221)
Balance at 31 March 2009	994,718	108,923	711,964	1,815,605
Balance at 1 April 2009	994,718	108,923	711,964	1,815,605
Total comprehensive income for the year	–	–	149,530	149,530
Balance at 31 March 2010	994,718	108,923	861,494	1,965,135

The notes on pages 86 to 95 form part of these financial statements.

Statement of cash flows

For the year ended 31 March 2010
(Expressed in Hong Kong dollars)

	2010 \$'000	2009 \$'000
Cash flows from operating activities		
Surplus/(loss) for the year	149,530	(44,221)
Net investment (income)/loss	(154,796)	32,716
Exchange difference	(1,733)	2,596
Decrease in amount due from Investor Compensation Company	216	59
Decrease in unsettled regular purchase of financial assets	–	46,987
Decrease in provision for compensation	(2,376)	(14,946)
Increase/(decrease) in accounts payable and accrued charges	94	(85)
Net cash (used in)/generated from operating activities	(9,065)	23,106
Cash flows from investing activities		
Purchase of debt securities	(1,158,241)	(1,346,351)
Sale or maturity of debt securities	1,220,937	1,279,250
Sale of equity securities	733	861
Interest received	62,260	69,545
Net cash generated from investing activities	125,689	3,305
Net increase in cash and cash equivalents	116,624	26,411
Cash and cash equivalents at beginning of the year	136,111	109,700
Cash and cash equivalents at end of the year	252,735	136,111

Analysis of the balance of cash and cash equivalents:

	2010 \$'000	2009 \$'000
Fixed and call deposits with banks	150,452	116,037
Cash at bank	102,283	20,074
	252,735	136,111

Notes to the financial statements

For the year ended 31 March 2010
(Expressed in Hong Kong dollars)

1. Purpose, limitation and principal activity

The Securities and Futures Ordinance (SFO) provides for the establishment of the Investor Compensation Fund (the Fund) to compensate investors who suffer a loss due to the default of an intermediary in relation to trading of products on Hong Kong Exchanges and Clearing Limited. The defaulting intermediary must be licensed or registered with the Securities and Futures Commission (SFC) for dealing in securities, futures contracts or securities margin financing.

The SFC is primarily responsible for the administration and management of the Fund in accordance with Section 238 of the SFO, but has transferred some functions to the Investor Compensation Company Limited (ICC) under Section 80 of the SFO. ICC is thus responsible for receipt, determination and payment of valid claims against the Fund in respect of defaults of intermediaries occurring on or after 1 April 2003. Upon making payment to a claimant, the SFC is subrogated to the claimant's right against the defaulter.

Pursuant to Section 244 of the SFO, the Chief Executive in Council has by order set the maximum amount of compensation at \$150,000 per claimant for a single default in relation to securities traded at the Stock Exchange of Hong Kong Limited (SEHK) or futures contracts traded at the Hong Kong Futures Exchange Limited (HKFE).

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the Securities & Futures (Investor Compensation – Claims) Rules. The SFC would pay unpaid claim amounts when funds became available in the Fund.

2. Money constituting the Fund

The Fund mainly consists of the amounts paid from the two compensation funds, the Unified Exchange Compensation Fund (UECF) and the Commodity Exchange Compensation Fund (CECF) (wound up on 26 May 2006). The SFC will also pay into the Fund any remaining balance in the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund after repaying the dealers' deposits and any money due to the registered dealers in accordance with Section 76 (11) of Schedule 10 of the SFO though it is not likely that these payments will be made within the coming year.

Other sources of money for the Fund include the levies chargeable on securities traded on the SEHK and futures contracts traded on the HKFE, and returns earned on the investment of the Fund (see also note 5).

3. Significant accounting policies

The Fund prepares its financial statements in accordance with International Financial Reporting Standards (IFRSs) (including applicable International Accounting Standards and Interpretations) promulgated by the International Accounting Standards Board (IASB). We set out below a summary of our significant accounting policies.

Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis, except that we state financial instruments classified as designated at fair value through profit or loss at their fair value (see accounting policy stated below).

We prepare the financial statements in conformity with IFRSs which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

3. Significant accounting policies (cont'd)

Basis of preparation (cont'd)

We review estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Recognition of income

We recognise income in the statement of comprehensive income provided it is probable that the economic benefits will flow to the Fund and we can measure reliably the revenue and costs. We record our income as follows:

Net investment income Net investment income comprises (i) interest income from bank deposits and debt securities; (ii) unrealised gain or loss on revaluation of debt securities and equity securities and (iii) realised gain or loss on redemption and disposal of debt securities and equity securities. We record interest income as it accrues using the effective interest method.

Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates ruling at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. We record exchange gains and losses on translation in the statement of comprehensive income.

Financial instruments

(i) Initial recognition

We classify the financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables and other financial liabilities.

We initially measure financial instruments at fair value, which normally will be equal to the transaction price, plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. We charge transaction costs on financial assets and financial liabilities at fair value through profit or loss to expense immediately.

We account for financial assets and financial liabilities on the date the Fund becomes a party to the contractual provisions of the instrument. We use settlement date accounting to record regular purchase or sale of financial assets. From this date, we record in our books any gains and losses arising from changes in fair value of the financial assets or financial liabilities.

The Fund's financial instruments mainly consist of debt and equity securities designated at fair value through profit or loss. We state financial assets and liabilities under this category at fair value and recognise changes in the fair value in the statement of comprehensive income in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the statement of comprehensive income.

(ii) Fair value measurement principles

We determine the fair value of financial instruments based on their quoted market prices on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments at the end of the reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices. Unlisted equity investments are shares in pooled funds. The fair value is determined based on the Fund's share in the net assets of the pooled funds as determined by the custodian.

3. Significant accounting policies (cont'd)

Financial instruments (cont'd)

(iii) Derecognition

We derecognise a financial asset when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

We derecognise a financial liability when the obligation specified in the contract is discharged, cancelled or expires.

(iv) Offsetting

We offset the financial assets and financial liabilities and report the net amount in the statement of financial position where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Impairment

(i) Recognition of impairment loss

We review the carrying amounts of the Fund's assets at the end of each reporting period to determine whether there is any objective evidence of impairment. If any such evidence exists, we estimate the asset's recoverable amount. We recognise in the statement of comprehensive income the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

(ii) Calculation of impairment loss

We calculate the recoverable amount of the Fund's receivables by discounting their expected future cash flows to their present value at the original effective interest rate inherent in the asset. We do not discount receivables with a short duration in the calculation of their recoverable amount.

(iii) Reversals of impairment loss

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we would have determined if we had not recognised any impairment loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Other receivables

We state other receivables initially at fair value and thereafter at amortised cost less impairment losses, unless the effect of discounting would be immaterial in which case we state them at cost.

3. Significant accounting policies (cont'd)

Provision for compensation

We make provision for liabilities arising from claims resulting from defaults for which it is probable that the Fund will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably, independent of whether a notice calling for claims pursuant to Section 3 of the Securities & Futures (Investor Compensation – Claims) Rules has been published. The provision covers all such claims received up to the date on which the financial statements are approved by the SFC. If the effect is material, we determine provisions by discounting the expected future cash flows that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The maximum liability of the Fund to claims for each default case is set at \$150,000 per claimant.

As the Fund is continually updating information in respect of claims received, it is possible that the recent claim experience is not indicative of future payments that will be required for claims received as at the end of the reporting period. Any increase or decrease in the provision would affect profit and loss in future years.

Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be immaterial in which case we state them at cost.

Contingent liabilities

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

Related parties

For the purpose of these financial statements, we consider that the following are related parties of the Fund:

- (i) parties that the Fund has the ability, directly or indirectly, to control or to significantly influence in making financial and operating decisions;
- (ii) parties that have the ability, directly or indirectly, to control or to significantly influence the Fund in making financial and operating decisions; and
- (iii) parties that are subject to common control or common significant influence.

Related parties may be individuals (being members of key management personnel, and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Fund where those parties are individuals.

Changes in accounting policies

The IASB has issued a number of new interpretations and an amendment to IFRSs that are first effective for the current accounting period of the Fund. Of these, the following developments are relevant to the Fund's financial statements:

- IAS 1 (revised 2007), Presentation of financial statements
- Amendments to IFRS 7, Financial instruments: Disclosures – improving disclosure about financial instruments

3. Significant accounting policies (cont'd)

Changes in accounting policies (con'd)

The revised standard requires all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. The application of the revised standard did not have any impact on reported surplus or deficit, total income and expense or net assets for any period presented.

As a result of the adoption of the amendments to IFRS 7, the financial statements include expanded disclosures in note 13 about the fair value measurement of the Fund's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Fund has taken advantage of the transitional provisions set out in the amendments to IFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

4. Taxation

The interest and profits on investments earned by the Fund are not subject to profits tax under Section 14 of the Inland Revenue Ordinance.

5. Net investment income/(loss)

	2010	2009
	\$'000	\$'000
Interest income from bank deposits	129	1,497
Interest income on financial assets designated at fair value through profit or loss	52,853	64,446
Realised gain/(loss) on disposal of equity securities	5	(34)
Realised gain/(loss) on redemption/disposal of debt securities	4,043	(14,285)
Gain/(loss) on revaluation of equity securities	71,812	(88,496)
Gain on revaluation of debt securities	25,954	4,156
Net investment income/(loss)	154,796	(32,716)

Interest income from bank deposits and debt securities is derived as follows:

	2010	2009
	\$'000	\$'000
Interest income on financial assets not at fair value through profit or loss	129	1,497
Interest income on financial assets designated at fair value through profit or loss	52,853	64,446
	52,982	65,943

6. Levy from the SEHK/HKFE

From 1 April 2003, the Fund received a levy chargeable on leviable SEHK transactions and leviable HKFE contracts pursuant to Part 2 and Part 3 of the Securities and Futures (Investor Compensation – Levy) Rules.

After the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2005 came into effect on 28 October 2005, a levy suspension and re-instatement mechanism was established whereby the investor compensation levies can be suspended when the net asset value of the Fund exceeds \$1.4 billion, and subsequently reinstated when the net asset value of the Fund falls below \$1 billion. Pursuant to the Securities and Futures (Investor Compensation Levy) (Amendment) Rules 2005 and the Gazette on 11 November 2005, no person is required to pay any levy to the Fund in respect of a sale and purchase of securities and futures contract with effect from 19 December 2005.

7. ICC expenses

The SFC formed the ICC in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the SFO. The Fund is responsible for funding the establishment and operation of ICC. For the year ended 31 March 2010, ICC incurred costs of \$4,165,000 for its operations (2009: \$4,235,000).

8. Provision for compensation

	\$'000
Balance as at 31 March 2008	22,978
Add: provision made during the year ended 31 March 2009	4,679
Less: provision reversed during the year ended 31 March 2009	(3,685)
Less: compensation paid during the year ended 31 March 2009	(15,940)
Balance as at 31 March 2009	8,032
Add: provision made during the year ended 31 March 2010	363
Less: compensation paid during the year ended 31 March 2010	(2,739)
Balance as at 31 March 2010	5,656

We maintained provision for liabilities arising from claims received resulting from three default cases for which ICC has published a notice calling for claims pursuant to Section 3 of the Securities & Futures (Investor Compensation – Claims) Rules. The maximum liability of the Fund to claims for these cases is set at \$150,000 per claimant. As at 31 March 2010 all provisions were expected to be paid within one year.

9. Financial assets designated at fair value through profit or loss

	2010 \$'000	2009 \$'000
(a) Debt securities		
(i) Listing status		
Listed – outside Hong Kong at quoted market prices	345,199	282,991
Listed – outside Hong Kong based on valuation techniques	63,001	35,630
Listed – in Hong Kong	51,608	110,578
Unlisted	1,057,995	1,125,415
	1,517,803	1,554,614
(ii) Maturity profile		
Within one year	317,118	526,000
After one year but within two years	406,937	237,674
After two years but within five years	629,833	607,542
After five years	163,915	183,398
	1,517,803	1,554,614
(iii) The weighted average effective interest rate of debt securities on 31 March 2010 was 2.0% (2009: 2.7%).		
(b) Pooled fund		
Unlisted	184,523	113,112

The pooled fund comprises mainly listed equity securities.

10. Deposits with banks and cash at bank

The effective interest rate on deposits with banks and cash at bank at 31 March 2010 ranged from 0.04% to 0.2% (2009: 0.4% to 0.72%). The balances mature within one year at both 31 March 2010 and 31 March 2009.

11. Contributions from UECF and CECF

Under Sections 74(2) and 75(2) of Schedule 10 of the SFO, the SFC may pay into the Fund such sum of money from the UECF and the CECF as it considers appropriate after 1 April 2003. Up to 31 March 2010, the SFC had \$994,718,000 (2009: \$994,718,000) and \$108,923,000 (2009: \$108,923,000) paid into the Fund from the UECF and the CECF respectively.

The Fund defines "capital" as including contributions from UECF and CECF and the accumulated surplus.

12. Related party transactions

We have related party relationships with the SFC, the ICC, the SEHK, the HKFE and the UECF. During the year, there were no significant related party transactions other than those disclosed in the financial statements (refer to notes 6, 7 & 11).

13. Financial instruments

The financial assets of the Fund mainly comprise debt securities and units in a pooled fund. The underlying investments of the pooled fund mainly comprise equity securities.

The main financial risks of the Fund arise from its investments in debt securities and units in pooled fund. The SFC appoints external investment managers to manage the Fund's investments and to ensure that the portfolio's investments comply with the Fund's investment policy approved by the SFC which sets control limits on credit risk, market risk, interest rate risk, liquidity risk and foreign exchange risk. The external investment managers report thereon to the SFC on a regular basis.

(i) Credit risk

The Fund's Investment Policy and Administrative Guidelines (Policy) only allows the Fund to invest in pooled funds, fixed rate dated securities rated A or above or in bank deposits. The Policy further limits the Fund's exposure to each issuer and each country, except for holdings of the US Treasuries, any issuances by Hong Kong Government and specified multilateral agencies rated AAA by Moody's or S&P's and approved pooled funds. The Fund's investment managers are responsible for managing the portfolio and ensuring the portfolio's investments meet the investment policy and restrictions and reports thereon on a monthly basis. During the year, the Fund complied with the above investment policy and, as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is the carrying value of the assets in the statement of financial position.

(ii) Liquidity risk

The Fund's policy is to regularly monitor current and expected liquidity requirement to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(iii) Interest rate risk

The Fund's interest bearing assets mainly comprise fixed interest rate bearing debt securities and bank deposits. The Fund's bank deposits are exposed to short term bank deposit interest re-pricing risk.

The Fund is subject to the risk that future cash flows of a debt security will fluctuate because of changes in market interest rates. In order to manage the re-pricing risk, the Fund adopts a policy of maintaining duration at no more than 2.5 years within its debt securities portfolio. As at 31 March 2010 the duration was 2.11 years (31 March 2009: 2.13 years).

13. Financial instruments (cont'd)

(iii) Interest rate risk (cont'd)

At 31 March 2010, it is estimated that a general increase/decrease of 100 basis points in 3-month interest rates, with all other variables held constant, would decrease/increase the Fund's gains on revaluation of debt securities and the accumulated surplus by approximately \$35 million (2009: \$35.4 million). Further, at 31 March 2010, it is estimated that a general increase of 100 basis points in 3 month interest rates, with all other variables held constant, would increase the Fund's surplus and accumulated surplus by approximately \$3 million (2009: \$4.6 million). The extent of any decrease in interest rates is expected to be minimal (2009: 1%) which would decrease the Fund's surplus by an insignificant amount (2009: \$4.6 million). Other components of accumulated surplus would not be affected (2009: Nil) by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Fund's accumulated surplus that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Fund which expose the Fund to fair value interest rate risk at the end of the reporting period. The analysis is performed on the same basis for 2009.

(iv) Exchange rate risk

The Fund's investment policy allows the Fund to have US dollar foreign exchange exposure. As the HK dollar is pegged with the US dollar, the Fund was not exposed to significant foreign exchange risk.

(v) Market risk

The investment activities of the Fund expose it to various types of market risks which are associated with the markets in which it invests, to the extent of the amount invested in debt securities and equity securities. Such risk will be reflected in the price and the carrying value of the financial assets concerned.

The Fund invests in units of a pooled fund, which mainly comprises listed equity securities, the performance of which is measured against the benchmark index MSCI AC Pacific ex Japan. It is estimated that a general increase/decrease of 24.2% in the benchmark index would increase/decrease the Fund's profit and accumulated surplus by approximately \$36 million (2009: a general increase/decrease of 27.5% in the benchmark index would decrease/increase the Fund's loss and increase/decrease the Fund's accumulated surplus by approximately \$23.2 million).

The sensitivity analysis indicates the instantaneous change in the Fund's accumulated surplus that would arise assuming that the changes in the benchmark index had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Fund which expose the Fund to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Fund's investment in pooled fund would change in accordance with the historical correlation with the relevant benchmark index since the portfolio is diversified in terms of industry distribution and that all other variables remain constant. The analysis is performed on the same basis for 2009.

13. Financial instruments (cont'd)

(vi) Fair values of financial instruments

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in IFRS 7, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3: (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2010 and 2009.

Where available, the fair value of the debt securities is the quoted market price. The fair value of unlisted debt securities is determined based on quotes from bond market-makers.

The fair value of the investment in the unlisted pooled fund is determined based on the Fund's share in the net assets of the pooled fund as determined by the custodian. The majority of the underlying assets of the pooled fund are listed securities.

Changes in the market conditions could materially affect fair value estimates. Any increase or decrease in the fair values of financial instruments would affect profit or loss in future years.

	2010			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Trading securities				
– listed	396,807	63,001	–	459,808
– unlisted	277,500	780,495	–	1,057,995
Pooled fund				
– unlisted	184,523	–	–	184,523
	858,830	843,496	–	1,702,326

During the year there were no significant transfers between instruments in Level 1 and Level 2.

14. Contingent liabilities

As at the date of this report, in addition to the provision made, as described in note 8, there are other claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims is \$450,000 (31 March 2009: \$450,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

15. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 March 2010

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2010 and which have not been adopted in these financial statements.

The Fund is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.

So far it has concluded that the adoption of them is unlikely to result in a restatement of the Fund's results of operations and financial position.

In addition, the following developments may result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

Improvements to IFRS: 2009

Effective for accounting periods beginning on or after

1 July 2009 or 1 January 2010